



# Investor Presentation

Q3 FY24

# Safe Harbor Statement

This presentation may contain forward-looking statements for which there are risks, uncertainties, and assumptions. Forward-looking statements may include any statements regarding strategies or plans for future operations; any statements concerning new features, enhancements or upgrades to our existing applications or plans for future applications; any projections of revenues, gross margins, earnings, or other financial items; and any statements of expectation or belief. Forward-looking statements are based only on currently available information and our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements, and therefore you should not rely on any forward-looking statements that we may make. Further information on risks that could affect Workday's results is included in our filings with the Securities and Exchange Commission which are available on the Workday investor relations webpage: [www.workday.com/company/investor\\_relations.php](http://www.workday.com/company/investor_relations.php)

Workday assumes no obligation for, and does not intend to update, any forward-looking statements. Any unreleased services, features, functionality or enhancements referenced in any Workday document, roadmap, blog, our website, press release or public statement that are not currently available are subject to change at Workday's discretion and may not be delivered as planned or at all.

Customers who purchase Workday services should make their purchase decisions based upon services, features, and functions that are currently available.

# Use of Non-GAAP Measures

In addition to financial results presented in accordance with US generally accepted accounting principles (GAAP), this presentation includes certain non-GAAP financial measures of performance. These non-GAAP financial measures are in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with Workday's results of operations or cash flows as determined in accordance with GAAP. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are contained in the Appendix to this presentation. The Company has not provided a reconciliation of its forward outlook for non-GAAP operating margin with its forward-looking GAAP operating margin in reliance on the unreasonable efforts exception provided under Item 10(e)(1)(i)(B) of Regulation S-K. The Company is unable, without unreasonable efforts, to quantify share-based compensation expense, which is excluded from our non-GAAP operating margin, as it requires additional inputs such as the number of shares granted and market prices that are not ascertainable.

# Workday at a Glance

# Workday by the Numbers

**\$142B+**

Market Opportunity<sup>1</sup>

**\$6.34B** 20% YoY Growth

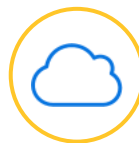
Trailing Twelve Month Subscription Revenues<sup>2</sup>

**\$6.05B** 22% YoY Growth

12-Month Subscription Revenue Backlog<sup>3</sup>

**\$1.85B** 26% Margin

Trailing Twelve Month Operating Cash Flow<sup>2</sup>



## Enterprise Management Cloud

For Finance, HR, Planning, Spend Management and Analytics



## 10,000+ Global Customers

Operating across 175+ Countries



## Serving 50%+ of the Fortune 500

Including 70%+ of the top 50 Fortune 500 companies



## 65M+ Global Users<sup>4</sup>

95%+ Customer Satisfaction<sup>5</sup>



## 18,300+ Employees Worldwide

Offices in 30+ Countries

<sup>1</sup> TAM estimates based on Workday and third-party data as of 9.27.23

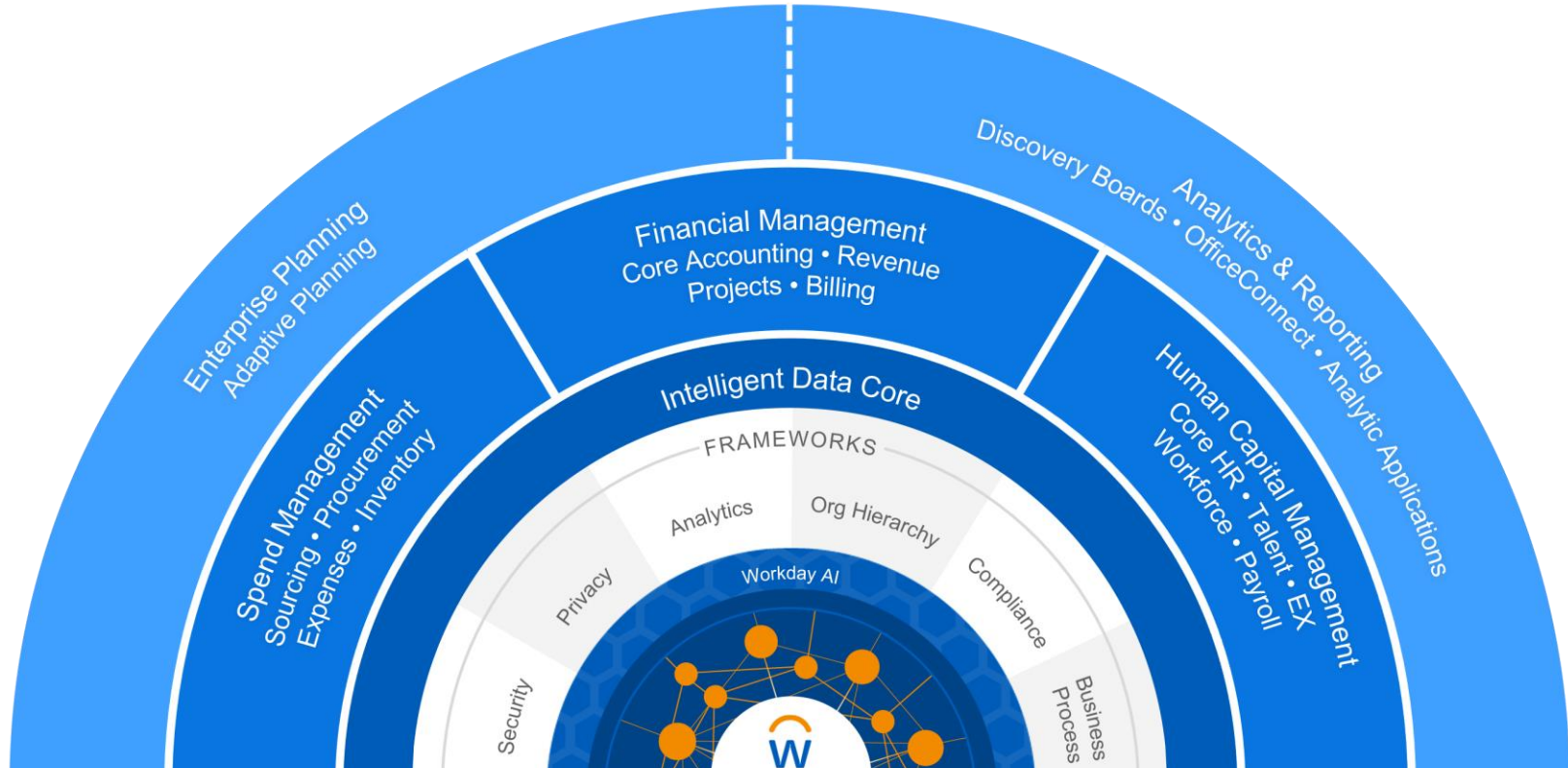
<sup>2</sup> For the trailing twelve months ended 10.31.2023

<sup>3</sup> As of 10.31.2023

<sup>4</sup> Represents users under contract as of 10.31.2023

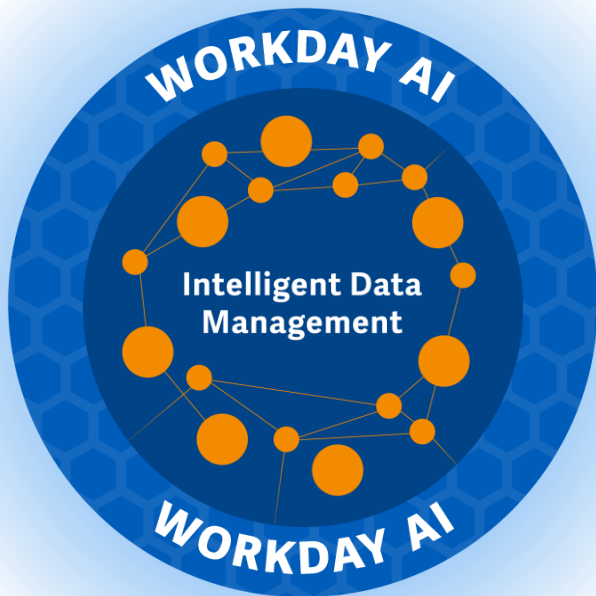
<sup>5</sup> Based on a survey conducted by Workday of Named Support Contacts in May 2022

# Workday Enterprise Management Cloud



**True Cloud** Scale • Elasticity • Performance • Availability • Continuous Delivery of Innovation • Single Version

# Workday Delivers AI Differently



## Quality Data

Uniform data model, 65M+ users<sup>1</sup>,  
600B+ transactions<sup>2</sup>

## Platform Approach

Embedded, not bolted on

## Trustworthy

Transparent and human-centric

<sup>1</sup> Represents users under contract as of 10.31.2023

<sup>2</sup> For the fiscal year ended 1.31.23

# Serving Organizations of all Sizes and Across Industries





# Meaningful Market Opportunity

**\$142B+**

**Addressing One of  
the Largest Markets  
in Enterprise  
Software**

## **HCM** \$58B

Human Capital  
Management/Workforce  
Management

Talent Management

Payroll

Workforce Planning  
and People Analytics

Employee Experience

## **FINS+** \$84B

Financial Management

Spend Management

Analytics

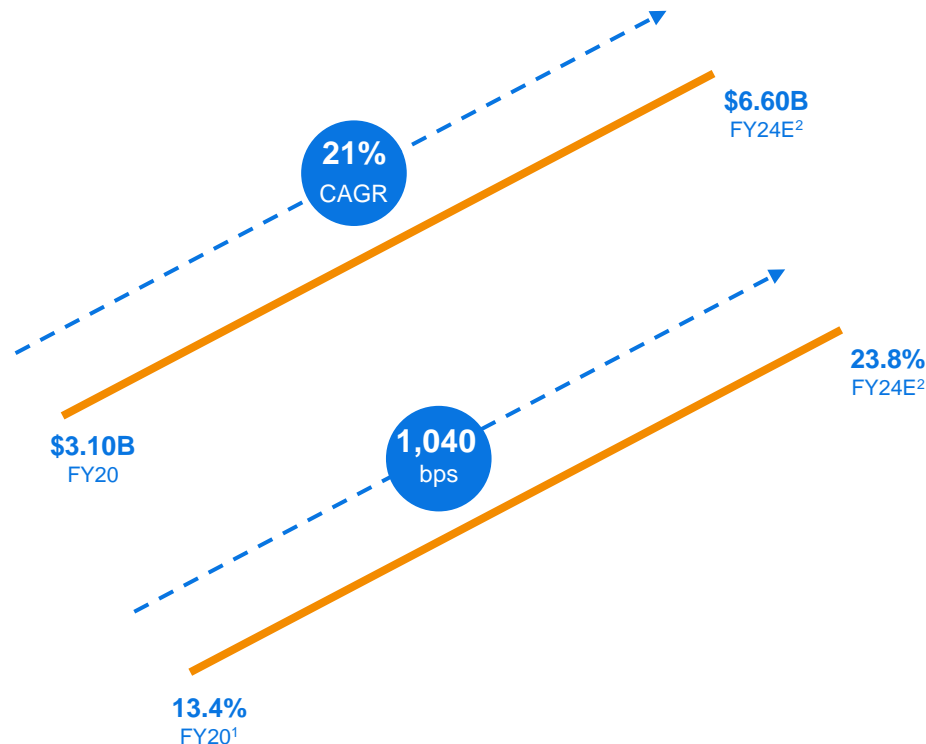
Financial Planning

Workday Extend

Student

# Driving Profitable Growth at Scale

Annual  
Subscription  
Revenues



**95%+**  
Gross Revenue  
Retention<sup>3</sup>

Non-GAAP  
Operating  
Margin

<sup>1</sup> Reconciliations of GAAP to Non-GAAP financial data included in the Appendix

<sup>2</sup> As provided on Q3 FY24 Earnings Call on 11.28.2023

<sup>3</sup> Measures the annual recurring revenue of our customers as of 10.31.22 that we have maintained as of 10.31.23, without giving credit for additional upsells or price and/or seats related changes. The metric captures only customer and product churn  
Note: Lines not drawn to scale

# While Growing Responsibly and Inclusively

## Our Employees

### **VIBE**

Our commitment to value inclusion, belonging, and equity for all

### **Opportunity Onramps®**

Provide candidates from diverse, nontraditional backgrounds with training and job opportunities

### **Investing in Training**

To help ensure we attract, recruit, hire, and advance employees of all backgrounds

## Our Customers

### **Building Inclusive Solutions**

Investing to help organizations gain valuable insights about equity within their workforce

### **Building Sustainable Solutions**

Helping customers improve sustainability and resilience of their supply chains

### **Empowering our Ecosystem**

Workday's adaptable platform enables customers and partners to manage their emissions reduction strategy

## The World Around Us

### **Net-Zero Carbon Footprint**

Achieved net-zero emissions in fiscal 2022 and match 100% of the electricity we use at our offices and data centers globally with clean, renewable sources

### **Commitment to 1.5°C**

Science-based targets across our entire value chain

### **Driving Policy Change**

Working to advance policies that support a skills-based approach to talent

### **For More Information:**

Resource Pages: [Sustainability and Reporting with Workday](#)  
[Download our 2023 Global Impact Report](#)

# Financial Highlights and Guidance

# Q3 FY24 Financial Highlights

	Q3 FY24 Results	Increase (Decrease) YoY
Total Revenues	\$1.87B	17%
Subscription Revenues	\$1.69B	18%
Total Subscription Revenue Backlog	\$18.45B	31%
12-month Subscription Revenue Backlog	\$6.05B	22%
24-month Subscription Revenue Backlog	\$10.58B	23%
GAAP Operating Margin	4.7%	630 bps
Non-GAAP Operating Margin <sup>1</sup>	24.8%	510 bps
Operating Cash Flows	\$451M	10%
Free Cash Flows <sup>1</sup>	\$391M	12%

<sup>1</sup> Reconciliations of GAAP to Non-GAAP financial data included in the Appendix

# Q3 FY24 Customer Wins and Expansions



Advent Health



AURELIUS



BBVA



Bentley®

COPELAND



GROUP 1  
AUTOMOTIVE®

KERN  
COUNTY



Lifespan

MINOR  
HOTELS

Mondelēz  
International

SEGA

THALES

# Q3 FY24 Business Highlights

- Announced **new full platform customers** for Workday Financial Management and Workday Human Capital Management (HCM), with new wins including AdventHealth, Aurelius Group, Bentley Systems, Globe Life, Houston Methodist, and Kern County.
- **Surpassed 5,000 core Workday Human Capital Management (HCM) customers** in Q3.
- **Announced several AI updates**, including multiple **generative AI capabilities**; new AI capabilities in Workday Adaptive Planning; a Manager Insights Hub that surfaces automated insights for managers to develop their teams; and **enhancements to Workday Extend to enable developers** to leverage Workday AI services.
- Demonstrated continued expansion of the Workday global partner ecosystem with several updates including a new **Workday AI Marketplace** to help customers easily find and deploy trusted AI apps within the Workday ecosystem, **an expanded partnership with ADP** to help deliver an enhanced frictionless global payroll, compliance, and HR experience for joint customers, and an **expanded partnership with Accenture** to help companies accelerate their adoption of skills-based talent strategies.
- Workday **celebrated its customers** with more than 15,000 attendees at Workday Rising and more than 4,000 attendees at Workday Rising EMEA.
- Named a **Leader in the Gartner® Magic Quadrant™** for Cloud HCM Suites for 1,000+ Employee Enterprises<sup>1</sup> and Gartner® Magic Quadrant™ for Cloud ERP for Service-Centric Enterprises.<sup>2</sup>
- **Workday VNDLY was named a 2023 Top HR Product of the Year** by Human Resource Executive.

<sup>1</sup> Gartner, "Magic Quadrant for Cloud HCM Suites for 1,000+ Employee Enterprises," Ranadip Chandra, Sam Grinter, Ron Hanscome, Chris Pang, Anand Chouksey, Josie Xing, Harsh Kundulli, David Bobo, Laura Gardiner, Hiten Sheth, Jackie Watrous, Travis Wickesberg, October 18, 2023.

<sup>2</sup> Gartner, "Magic Quadrant for Cloud ERP for Service-Centric Enterprises," Denis Torii, Sam Grinter, Tim Faith, Naveen Mahendra, Neha Ralhan, Robert Anderson, August 29, 2023.

# Guidance Summary

Q4 FY24	Quarterly Guidance	Increase (Decrease) YoY
Total Revenues	\$1.913B	16%
Subscription Revenues	\$1.755B	17%
12-month Subscription Revenue Backlog	n/a	19%
Non-GAAP Operating Margin	23.5%	500 bps
GAAP Operating Margin	~20 points lower than non-GAAP	n/a
Full Year FY24	Full Year Guidance	Increase (Decrease) YoY
Total Revenues	\$7.250B	17%
Subscription Revenues	\$6.598B	19%
Non-GAAP Operating Margin	23.8%	430 bps
GAAP Operating Margin	~22 points lower than non-GAAP	n/a
Non-GAAP Tax Rate	19%	n/a
Operating Cash Flows	\$1.975B	19%
Total Capital Expenditures <sup>1</sup>	\$250M	(31%)
Full Year FY25	Full Year Guidance	Increase (Decrease) YoY
Subscription Revenues	\$7.725B - \$7.775B	17% - 18%
Non-GAAP Operating Margin	Expand FY25 non-GAAP operating margins from FY24 levels	n/a

As provided on Q3 FY24 Earnings Call on 11.28.2023

<sup>1</sup> Total Capital expenditures include owned real estate projects



# Appendix

# Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2023

(in thousands, except percentages and per share data)	GAAP	Share-Based Compensation Expenses	Other Operating Expenses <sup>2</sup>	Income Tax and Dilution Effects <sup>3</sup>	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 263,840	\$ (30,543)	\$ (9,140)	\$ —	\$ 224,157
Costs of professional services	181,400	(28,738)	(1,097)	—	151,565
Product development	618,736	(162,025)	(3,006)	—	453,705
Sales and marketing	537,816	(64,805)	(10,438)	—	462,573
General and administrative	176,028	(63,146)	(1,305)	—	111,577
Operating income (loss)	87,855	349,257	24,986	—	462,098
Operating margin	4.7 %	18.7 %	1.4 %	— %	24.8 %
Other income (expense), net	41,388	—	—	—	41,388
Income (loss) before provision for (benefit from) income taxes	129,243	349,257	24,986	—	503,486
Provision for (benefit from) income taxes	15,534	—	—	80,129	95,663
Net income (loss)	\$ 113,709	\$ 349,257	\$ 24,986	\$ (80,129)	\$ 407,823
Net income (loss) per share, basic <sup>1</sup>	\$ 0.43	\$ 1.33	\$ 0.10	\$ (0.30)	\$ 1.56
Net income (loss) per share, diluted <sup>1</sup>	\$ 0.43	\$ 1.31	\$ 0.09	\$ (0.30)	\$ 1.53

- GAAP and non-GAAP net income per share are both calculated based upon 262,153 basic and 266,377 diluted weighted-average shares of common stock.
- Other operating expenses include amortization of acquisition-related intangible assets of \$16.0 million and employer payroll tax-related items on employee stock transactions of \$9.0 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2024, the non-GAAP tax rate is 19%.

# Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2022

(in thousands, except percentages and per share data)	GAAP	Share-Based Compensation Expenses	Other Operating Expenses <sup>2</sup>	Income Tax and Dilution Effects <sup>3</sup>	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 259,397	\$ (25,598)	\$ (14,100)	\$ —	\$ 219,699
Costs of professional services	176,396	(26,577)	(623)	—	149,196
Product development	565,727	(149,279)	(1,899)	—	414,549
Sales and marketing	470,196	(61,186)	(9,206)	—	399,804
General and administrative	153,708	(51,556)	(531)	—	101,621
Operating income (loss)	(26,321)	314,196	26,359	—	314,234
Operating margin	(1.6) %	19.6 %	1.7 %	— %	19.7 %
Other income (expense), net	4,163	—	—	—	4,163
Income (loss) before provision for (benefit from) income taxes	(22,158)	314,196	26,359	—	318,397
Provision for (benefit from) income taxes	52,563	—	—	7,933	60,496
Net income (loss)	\$ (74,721)	\$ 314,196	\$ 26,359	\$ (7,933)	\$ 257,901
Net income (loss) per share, basic <sup>1</sup>	\$ (0.29)	\$ 1.23	\$ 0.10	\$ (0.03)	\$ 1.01
Net income (loss) per share, diluted <sup>1</sup>	\$ (0.29)	\$ 1.23	\$ 0.10	\$ (0.05)	\$ 0.99

- GAAP net loss per share is calculated based upon 255,753 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 255,753 basic and 261,777 diluted weighted-average shares of common stock. The numerator used to compute non-GAAP diluted net income per share was increased by \$0.9 million for after-tax interest expense on our convertible senior notes in accordance with the if-converted method.
- Other operating expenses include amortization of acquisition-related intangible assets of \$21.2 million and employer payroll tax-related items on employee stock transactions of \$5.2 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2023, the non-GAAP tax rate was 19%. Included in the per share amount is a dilution impact of \$0.02 from the conversion of GAAP diluted net loss per share to non-GAAP diluted net income per share.

# Reconciliation of GAAP to Non-GAAP Data

Nine Months Ended October 31, 2023

(in thousands, except percentages and per share data)	GAAP	Share-Based Compensation Expenses	Other Operating Expenses <sup>2</sup>	Income Tax and Dilution Effects <sup>3</sup>	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 758,551	\$ (89,793)	\$ (39,500)	\$ —	\$ 629,258
Costs of professional services	552,233	(87,532)	(5,537)	—	459,164
Product development	1,828,870	(493,934)	(18,806)	—	1,316,130
Sales and marketing	1,580,639	(211,560)	(35,222)	—	1,333,857
General and administrative	512,148	(187,810)	(5,468)	—	318,870
Operating income (loss)	104,312	1,070,629	104,533	—	1,279,474
Operating margin	2.0 %	20.1 %	1.9 %	— %	24.0 %
Other income (expense), net	113,652	—	—	—	113,652
Income (loss) before provision for (benefit from) income taxes	217,964	1,070,629	104,533	—	1,393,126
Provision for (benefit from) income taxes	25,459	—	—	239,235	264,694
Net income (loss)	\$ 192,505	\$ 1,070,629	\$ 104,533	\$ (239,235)	\$ 1,128,432
Net income (loss) per share, basic <sup>1</sup>	\$ 0.74	\$ 4.11	\$ 0.40	\$ (0.92)	\$ 4.33
Net income (loss) per share, diluted <sup>1</sup>	\$ 0.73	\$ 4.05	\$ 0.40	\$ (0.91)	\$ 4.27

- GAAP and non-GAAP net income per share are both calculated based upon 260,747 basic and 264,087 diluted weighted-average shares of common stock.
- Other operating expenses include amortization of acquisition-related intangible assets of \$58.4 million and employer payroll tax-related items on employee stock transactions of \$46.2 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2024, the non-GAAP tax rate is 19%.

# Reconciliation of GAAP to Non-GAAP Data

Nine Months Ended October 31, 2022

(in thousands, except percentages and per share data)	GAAP	Share-Based Compensation Expenses	Other Operating Expenses <sup>2</sup>	Income Tax and Dilution Effects <sup>3</sup>	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 737,301	\$ (76,918)	\$ (45,022)	\$ —	\$ 615,361
Costs of professional services	524,398	(79,999)	(5,297)	—	439,102
Product development	1,655,071	(449,764)	(17,146)	—	1,188,161
Sales and marketing	1,358,198	(180,233)	(32,640)	—	1,145,325
General and administrative	427,832	(146,795)	(3,772)	—	277,265
Operating income (loss)	(133,242)	933,709	103,877	—	904,344
Operating margin	(2.9) %	20.4 %	2.3 %	— %	19.8 %
Other income (expense), net	(48,789)	—	—	—	(48,789)
Income (loss) before provision for (benefit from) income taxes	(182,031)	933,709	103,877	—	855,555
Provision for (benefit from) income taxes	59,021	—	—	103,534	162,555
Net income (loss)	\$ (241,052)	\$ 933,709	\$ 103,877	\$ (103,534)	\$ 693,000
Net income (loss) per share, basic <sup>1</sup>	\$ (0.95)	\$ 3.68	\$ 0.41	\$ (0.41)	\$ 2.73
Net income (loss) per share, diluted <sup>1</sup>	\$ (0.95)	\$ 3.68	\$ 0.41	\$ (0.49)	\$ 2.65

- GAAP net loss per share is calculated based upon 253,975 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 253,975 basic and 262,742 diluted weighted-average shares of common stock. The numerator used to compute non-GAAP diluted net income per share was increased by \$3.5 million for after-tax interest expense on our convertible senior notes in accordance with the if-converted method.
- Other operating expenses include amortization of acquisition-related intangible assets of \$64.3 million and employer payroll tax-related items on employee stock transactions of \$39.5 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2023, the non-GAAP tax rate was 19%. Included in the per share amount is a dilution impact of \$0.08 from the conversion of GAAP diluted net loss per share to non-GAAP diluted net income per share.

# Reconciliation of GAAP to Non-GAAP Data

Year Ended January 31, 2020

(in thousands, except percentages and per share data)	GAAP		Share-Based Compensation Expenses	Other Operating Expenses <sup>2</sup>	Amortization of Debt Discount and Issuance Costs <sup>3</sup>	Income Tax and Dilution Effects <sup>4</sup>	Non-GAAP
Costs and expenses:							
Costs of subscription services	\$	488,513	\$ (49,919)	\$ (40,326)	\$ —	\$ —	\$ 398,268
Costs of professional services		576,745	(80,401)	(6,440)	—	—	489,904
Product development		1,549,906	(434,188)	(30,684)	—	—	1,085,034
Sales and marketing		1,146,548	(176,758)	(40,774)	—	—	929,016
General and administrative		367,724	(118,614)	(8,592)	—	—	240,518
Operating income (loss)		(502,230)	859,880	126,816	—	—	484,466
Operating margin		(13.8) %	23.7 %	3.5 %	— %	— %	13.4 %
Other income (expense), net		19,783	—	—	54,034	—	73,817
Income (loss) before provision for (benefit from) income taxes		(482,447)	859,880	126,816	54,034	—	558,283
Provision for (benefit from) income taxes		(1,773)	—	—	—	96,681	94,908
Net income (loss)	\$	(480,674)	\$ 859,880	\$ 126,816	\$ 54,034	\$ (96,681)	\$ 463,375
Net income (loss) per share, basic <sup>1</sup>	\$	(2.12)	\$ 3.78	\$ 0.56	\$ 0.24	\$ (0.42)	\$ 2.04
Net income (loss) per share, diluted <sup>1</sup>	\$	(2.12)	\$ 3.78	\$ 0.56	\$ 0.24	\$ (0.58)	\$ 1.88

- GAAP net loss per share is calculated based upon 227,185 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 227,185 basic and 247,013 diluted weighted-average shares of common stock.
- Other operating expenses include amortization of acquisition-related intangible assets of \$71.8 million and employer payroll tax-related items on employee stock transactions of \$55.0 million.
- Prior to the adoption of Accounting Standard Update No. 2020-06, Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40), on February 1, 2021, we were required to separately account for liability (debt) and equity (conversion option) components of the convertible senior notes that were issued in private placements in June 2013 and September 2017. Accordingly, for GAAP purposes we were required to recognize the effective interest expense on our convertible senior notes and amortize the issuance costs over the term of the notes. The difference between the effective interest expense and the contractual interest expense, and the amortization expense of issuance costs were excluded from management's assessment of our operating performance because management believed that these non-cash expenses were not indicative of ongoing operating performance. Management believed that the exclusion of the non-cash interest expense provided investors an enhanced view of Workday's operational performance.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2020, the non-GAAP tax rate was 17%. Included in the per share amount is a dilution impact of \$0.15 from the conversion of basic and diluted net loss per share to diluted net income per share.

# Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Net cash provided by (used in) operating activities	\$ 450,775	\$ 408,668	\$ 1,153,355	\$ 962,743
Less: Total capital expenditures <sup>1</sup>	(59,948)	(58,846)	(184,165)	(286,459)
Free cash flows	<u>\$ 390,827</u>	<u>\$ 349,822</u>	<u>\$ 969,190</u>	<u>\$ 676,284</u>

1. Total capital expenditures consists of Capital expenditures, excluding owned real estate projects of \$59 million, \$59 million, \$181 million, and \$286 million for the three and nine months ended October 31, 2023, and 2022, respectively, and Owned real estate projects of \$1 million, \$0.2 million, \$3 million, and \$0.4 million for the three and nine months ended October 31, 2023, and 2022, respectively.

# About Non-GAAP Financial Measures

To provide investors and others with additional information regarding Workday's results, we have disclosed the following non-GAAP financial measures: non-GAAP operating income (loss), non-GAAP operating margin, non-GAAP net income (loss) per share, and free cash flows. Workday has provided a reconciliation of each non-GAAP financial measure used in this presentation to the most directly comparable GAAP financial measure. Non-GAAP operating income (loss) and non-GAAP operating margin differ from GAAP in that they exclude share-based compensation expenses, employer payroll tax-related items on employee stock transactions, and amortization expense for acquisition-related intangible assets. Non-GAAP net income (loss) per share differs from GAAP in that it excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization expense for acquisition-related intangible assets, and income tax effects. Free cash flows differ from GAAP cash flows from operating activities in that it treats total capital expenditures as a reduction to cash flows.

Workday's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate Workday's financial performance. Management believes these non-GAAP financial measures reflect Workday's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Workday's business. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating Workday's operating results and prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

Management believes excluding the following items from the GAAP Condensed Consolidated Statements of Operations is useful to investors and others in assessing Workday's operating performance due to the following factors:

- *Share-based compensation expenses.* Although share-based compensation is an important aspect of the compensation of our employees and executives, management believes it is useful to exclude share-based compensation expenses to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. Share-based compensation expenses are determined using a number of factors, including our stock price, volatility, and forfeiture rates, that are beyond our control and generally unrelated to operational decisions and performance in any particular period. Further, share-based compensation expenses are not reflective of the value ultimately received by the grant recipients.



# About Non-GAAP Financial Measures (cont'd)

- *Other operating expenses.* Other operating expenses includes employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. The amount of employer payroll tax-related items on employee stock transactions is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. For business combinations, we generally allocate a portion of the purchase price to intangible assets. The amount of the allocation is based on estimates and assumptions made by management and is subject to amortization. The amount of purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition and thus we do not believe it is reflective of ongoing operations. Although we exclude the amortization of acquisition-related intangible assets from these non-GAAP measures, management believes that it is important for investors to understand that such intangible assets were recorded as part of purchase accounting and contribute to revenue generation.
- *Income tax effects.* We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. In projecting this long-term non-GAAP tax rate, we utilize a three-year financial projection that excludes the direct impact of share-based compensation and related employer payroll taxes, amortization of acquisition-related intangible assets, and amortization of debt discount and issuance costs. The projected rate considers other factors such as our current operating structure, existing tax positions in various jurisdictions, and key legislation in major jurisdictions where we operate. For fiscal 2024 and 2023, we determined the projected non-GAAP tax rate to be 19%, which reflects currently available information, as well as other factors and assumptions. We will periodically re-evaluate this tax rate, as necessary, for significant events, based on our ongoing analysis of the 2017 U.S. Tax Cuts and Jobs Act, relevant tax law changes, material changes in the forecasted geographic earnings mix, and any significant acquisitions.

Additionally, with regards to free cash flows, Workday's management believes that reducing cash provided by (used in) operating activities by capital expenditures is meaningful to investors and others because it provides an enhanced view of cash flow generation from the ongoing operations of our business, and it balances operating results, cash management, and capital efficiency.

The use of the non-GAAP measures of non-GAAP operating income (loss), non-GAAP operating margin, non-GAAP net income (loss) per share, and free cash flows have certain limitations as they do not reflect all items of expense or cash that affect Workday's operations. Workday compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited. Management encourages investors and others to review Workday's financial information in its entirety and not rely on a single financial measure.

